5% or more of the total combined voting power or value of all classes of capital stock of ELI. As of December 31, 1998, there were 200,000 shares of ELI Class A Common Stock reserved for issuance under the ELI ESPP. These shares may be adjusted for any future stock dividends or stock splits. The ESPP will terminate when all shares reserved have been subscribed for and purchased, unless terminated earlier or extended by the Board of Directors. The ELI ESPP is administered by the Compensation Committee of ELI's Board of Directors. As of December 31, 1998, the number of employees enrolled and participating in the ELI ESPP was 468 and the total number of shares purchased under the ELI ESPP was 119,345. For purposes of the pro forma calculation, compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in 1998:

	1918
Dividend yield	
Expected volatility	71%
Risk-free interest rate	4.92%
Expected life	6 months

The weighted average fair value of those purchase rights granted in 1998 was $3.82.

ELI Equity Incentive Plan

In October 1997, the Board of Directors of ELI approved the ELI EIP. Under the ELI EIP, awards of ELI's Class A Common Stock may be granted to eligible directors, officers, management employees, non-management employees and consultants of ELI in the form of incentive stock options, non-qualified stock options, SARs, restricted stock or other stock-based awards. The ELI EIP is administered by the Compensation Committee of the ELI Board of Directors. The exercise price for such awards shall not be less than 85% or more than 110% of the average of the high and low stock prices on the date of grant. The exercise period for such awards is generally 10 years from the date of grant. ELI has reserved 4,170,600 shares for issuance under the terms of this plan.

The following is a summary of share activity subject to option under the ELI EIP.

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 1997	—	$ —
Options granted	2,326,000	16.00
Balance at December 31, 1997	2,326,000	16.00
Options granted	1,654,000	10.77
Options canceled, forfeited or lapsed	(1,649,000)	16.21
Balance at December 31, 1998	2,331,000	$12.14

As a result of the stock option exchange program approved by the ELI Compensation Committee of the Board of Directors, a total of 2,212,000 options were eligible for exchange, of which 1,426,000 options were canceled in exchange for 880,000 new options.

The following table summarizes information about shares subject to options under the EIP at December 31, 1998.

Options Outstanding				Options Exercisable	
Number Outstanding	Range of Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Number Exercisable	Weighted Average Exercise Price
1,261,000	$ 8 - 9	$ 9	9	268,000	$ 9
32,000	9 – 16	13	9	27,000	13
963,000	16 - 17	16	9	320,000	16
75,000	17 - 20	19	9	—	—
2,331,000	$ 8 - 20	$12	9	615,000	$13

For purposes of the pro forma calculation, compensation cost is recognized for the fair value of the employees purchase rights, which was estimated using the Black Scholes option pricing model with thefollowing assumptions for subscription periods beginning in 1998 and 1997:

	1998	1997
Dividend yield..	—	—
Expected volatility	71%	13%
Risk-free interest rate	5.44%	5.87%
Expected life	6 years	7 years

The weighted-average fair value of those options granted in 1998 and 1997 were $6.94 and $5.13, respectively.

In conjunction with the IPO, ELI granted 535,000 restricted stock awards to key employees in the form of Class A Common Stock. Subsequently in 1997, 15,000 shares were returned and canceled. None of the restricted stock awards may be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the employee until the restrictions lapse. For 395,000 shares, ***restrictions*** lapse over one through three-year ***periods,*** including one-third of rhe shares when ELI achieves $lOO,OOO,OOO of annual revenues, one-third of the shares when ELI achieves $125,000,000 of annual revenues, and one-third oftheshares when ELI achieves $155,000,000 of annual revenues. For the remaining 125,000 shares, restrictions will lapse in January 2001 if certain performance targets are met. At December 31, 1998, 520,000 shares of this stock were outstanding, of which 131,667 shares were no longer restricted pending board approval. Compensation expense of $4,666,000 and $219,000 for the years ended December 31, 1998 and 1997, respectively, has been recorded in connection with this grant.

Directors' Deferred Fee Equity Plan

The Company's Non-Employee Directors' Deferred Fee Equity Plan (the Directors' Plan) was approved by shareholders on May 19, 1995 and subsequently amended. The Directors' Plan includes an Option Plan, a Stock Plan and a Formula Plan. Through the Option Plan, an eligible director may elect to receive up to $30,000 per annum of his or her director's fees for a period of up to five years in the form of options to purchase Company common stock, the number of such options being equal to such fees divided by 20% of the fair market value of Company common stock on the effective date of the options and are exercisable at 90% of the fair market value of Company common stock on the effective date of the options. Through the Stock Plan, an eligible director may elect to receive all or a portion of his or her director's fees in the form of Plan Units, the number of such Plan Units being equal to such fees divided by the fair market value of Company common stock on certain specified dates. The Formula Plan provides each Director of the Company options to purchase 5,000 shares of common stock on the first day of each year beginning in 1997 and continuing through 2002 regardless of whether the Director ***is*** participating in the Option Plan or Stock Plan. In addition, on September 1, 1996, options to purchase 2,500 shares of common stock were granted to each Director. The exercise price of the options are 100% of the fair market value on the date of grant and the options are exercisable six months after the grant date and remain exercisable for ten years after the grant date. In the event of termination of Directorship, a Stock Plan participant will receive the value of such Plan Units in either stock or cash or installments of cash as selected by the Participant at the time of the related Stock Plan election. As of any date, the maximum number of shares of common stock which the Plan may be obligated to deliver pursuant to the Stock Plan and the maximum number of shares of common stock which shall have been purchased by Participants pursuant to the Option Plan and which may be issued pursuant to outstanding options under the Option Plan shall not be more than one percent (1%) of the total outstanding shares of Common Stock of the Company as of such date, subject to adjustment in the event of changes in the corporate structure of the Company affecting capital stock. There were 11 directors participating in the Directors' Plan in 1998. In 1998, the total Options and Plan Units earned were 185,090 and 16,661, respectively (adjusted for subsequent stock dividends). In 1997, the total Options and Plan Units earned were 188,838 and 18,817, respectively (adjusted for subsequent stock dividends). In 1996, the total Options and Plan Units earned were 160,151 and 15,585, respectively (adjusted for subsequent stock dividends). At December 31, 1998, 525,422 options were exercisable at a weighted average exercise price of $9.98.

(10) 1997 Charges to Earnings:

In 1996 and early 1997, the Company had been pursuing an aggressive growth strategy to take advantage of opportunities in the emerging communications marketplace. This strategy included the initiation and expansion of long distance services which, in combination with other enhanced service offerings, would enable the Company to offer an integrated package of products and services.

Late in 1996, the Company began the transition of its long distance network, primarily to fixed cost leases, in order to achieve the lowest cost of providing long distance service. In addition, the Company initiated a brand recognition program to support the sales and marketing initiatives designed to increase the Company's market share. The increase in revenues resulting from this growth strategy, though significant, did not offset the resulting increase in incremental expenses from the branding, sales, and marketing initiatives. As a result, the Company's long distance service operations generated unexpected losses during the first half of 1997 which had an adverse impact on the Company's earnings and cash flow. During the second quarter 1997, management re-evaluated this growth strategy in light of this continuing impact on earnings and cash flow.

In connection with the re-evaluation of the Company's communications growth strategy, as well as a review of its employee benefit plans to determine if such plans were competitive with those provided in the industry, several public utility commission orders requiring the Company to record charges to earnings, and other charges to earnings related to certain accounting policy changes at ELI in anticipation of its initial public offering, the Company recorded approximately $197,300,000 of charges to earnings in 1997 as follows:

	1997
	($ in thousands)
Curtailment of certain long distance service operations	$ 34,600
Benefit plan curtailments and related regulatory assets	34,700
Telecommunications information systems and software	67,400
Regulatory commission orders	47,200
Other	13,400
Total	$197,300

(11) Income Taxes:

The following is a reconciliation of the provision for income taxes at federal statutory rates to the effective rates.

	1998	1997	1996
Consolidated tax provision at federal statutory rate	35.0%	35.0%	35.0%
State income tax provisions, net of federal income tax benefit	1.3%	8.6%	0.5%
Allowance for funds used during construction	(2.7%)	(4.2%)	(2.0%)
Nontaxable investment income	(3.3%)	(19.9%)	(1.7%)
Amortization of investment tax credits	(1.9%)	(7.3%)	(0.7%)
Flow through depreciation	6.0%	17.6%	1.6%
All other, net	(9.0%)	1.4%	(1.2%)
	25.4%	31.2%	31.5%

As of December 31, 1998, 1997 and 1996, accumulated deferred income taxes amounted to $432,299,000, $408,310,000 and $334,117,000, respectively, and the unamortized deferred investment tax credits amounted to $10,609,000, $12,398,000 and $13,858,000, respectively. Income taxes paid during the year were $5,434,000, $17,765,000 and $22,525,000 for 1998, 1997 and 1996, respectively.

Notes to Consolidated Financial Statement&Continued)

The components of the net deferred income tax liability at December 31, are as follows:

	1998	1997	1996
		($ in thousands)	
Deferred income tax liabilities:			
Property, plant and equipment basis differences	$334,296	$338,170	$285,673
Regulatory assets	73,724	76,504	63,447
Other, net . .	47,572	20,101	14,469
	455,592	434,775	363,589
Deferred income tax assets:			
Regulatory liabilities . . .	8,431	9,236	10,076
Deferred investment tax credits	4,253	4,831	5,538
	12,684	14,067	15,614
Net deferred income tax liability .	$442,908	$420,708	$347,975

The provision for federal and state income taxes, as well as the taxes charged or credited to shareholders' equity, includes amounts both payable currently and deferred for payment in future periods as indicated below:

	1998	1997	1996
		($ in thousands)	
Income taxes charged (credited) to the income statement:			
Current:			
Federal	$ (1,644)	$13,658	$19,775
State	294	38	(3,256)
Total current	(1,350)	13,696	16,519
Deferred:			
Federal . .	23,800	(7,674)	64,895
Investment tax credits..	(1,627)	(1,740)	(1,865)
State	1,514	3,101	5388
Total deferred	23,687	(6,313)	68,418
Subtotal	22,337	7,383	84937
Income tax benefit on dividends on convertible preferred securities:			
Current:			
Federal	(3,344)	(3,344)	(3,149)
State	(508)	(508)	(479)
Subtotal	(3,852)	(3,852)	(3,628)
Income tax benefit on cumulative effect of change in accounting principle:			
Current:			
Federal . . .	(478)	—	—
state	—	—	—
Subtotal	(478)	—	—
Total Income taxes charged to the income statement (a)	18,007	3,531	81,302
Income taxes charged (credited) to shareholder; equity:			
Deferred income taxes (benefits) on unrealized gains or losses on securities classified as available-for-sale..	32,792	6,718	(6,884)
Current benefit arising from stock options exercised	(35)	(164)	(345)
Income taxes charged (credited) to shareholders' equity (b) . . .	32,757	6,554	(7,229)
Total income taxes: (a) plus (b)	$50,764	$10,085	$74,080

The Company's alternative minimum tax credit as of December 31, 1998 is $74,200,000, which can be carried forward indefinitely to reduce future regular tax liability The Company's tax net operating loss carry forward as of December 31, 1998 is $45,400,000, which can be carried forward for 15 years. These benefits are included as debits against accrued income taxes.

(12) Net Income Per Common Share:

The reconciliation of the net income pet common share calculation for the years ended December 3 1, 1998, 1997 and 1996 is as follows:

	1998			1997			1996		
	($ in thousands, except for per share amounts)								
	Income	Shares	Per Share	Income	Shares	Per Share	Income	Shares	Per Share
Net income per common share:									
Basic	$57,060	258,879	$.22	$10,100	260,226	$.04	$178,660	261,286	$.68
Effect of dilutive options	—	742	—	—	598	—	—	802	—
Diluted	$57,060	259,621	$.22	$10,100	260,824	$.04	$178,660	262,088	$.68

All share amounts represent weighted average shares outstanding for each respective period. All per share amounts have been adjusted for subsequent stock dividends. The diluted net income per common share calculation excludes the effect of potentially dilutive shares when their exercise price exceeds the average market price over the period. The Company has 4,025,000 shares of potentially dilutive Mandatorily Redeemable Convertible Preferred Securities which are convertible into common stock at a 3.76 to 1 ratio at an exercise price of $13.30 per share and 6,256,720 potentiallydilutivestockoptions at a range of $10.31 to $14.24 per share. These items were adjusted for subsequent stock dividends and were not included in the diluted net income per common share calculation for any of the above periods as their effect was antidilutive.

(13) Comprehensive Income:

The Company's other comprehensive income is as follows:

	Year Ended December 31, 1998		
	Before-Tax Amount	Tax Expense/ Benefit	Net-of-Tax Amount
		($ in thousands)	
Net unrealized gains on securities:			
Net unrealized holding gains arising during period	$56,497	$21,627	$34,870
Add: Reclassification adjustment for net losses realized in net income	29,167	11,165	18,002
Other comprehensive income	$85,644	$32,792	$52,872

(14) Segment Information:

The company is a diversified communications and public services company which is segmented into communications, CLEC, gas, electric and water and wastewater services. The communications sector provides both regulated and competitive communications services to residential, business and wholesale customers. The CLEC sector is a facilities based integrated communications provider providing a broad range of communications services throughout the United States through the Company's subsidiary, ELI. The electric sector provides electric transmission and distribution services to primarily residential customers. The gas sector provides natural gas transmission and distribution services to primarily residential customers. The water and wastewater sector provides water distribution, wholesale water transmission, wastewater treatment, public works consulting, and marketing and billing services to residential customers.

Special items charged against revenues represent the revenue portion of the 1997 charges to earnings (see Note 10). Special items charged against operating income represent the 1998 Y2K costs and separation costs, and the 1997 charges to earnings. Sector EBITDA consists of sector operating income plus depreciation. Special items charged against sector EBITDA include Y2K costs and separation costs. Consolidated EBITDA represents the aggregate sector EBITDA plus investment and other income less special items which include 1998 Y2K and separation costs, the 1998 HTCC investment write off, the 1997 non operating gain on sale of subsidiary stock and the 1997 charges to earnings. EBITDA is a measure commonly used to analyze companies on the basis of operating performance. It is not a measure of financial performance under generally accepted accounting principles and should nor be considered as an alternative to net income as a measure of performance nor as an alternative to cash flow as a measure of liquidity and may not be compared to similarly titled measures of other companies.

	Year Ended December 3 I,		
	1998	1997	1996
	($ in thousands)		
Communications:			
Revenues excluding special items	$ 867,446	$ 840,329	$ 763,459
Inter-sector revenues	(32,407)	(23,573)	(11,250)
Revenues as reported	835,039	802,589	752,209
Operating income excluding special items	164,821	140,143	231,823
Operating income as reported	157,567	(2,580)	231,823
Depreciation	181,656	175,363	148,022
EBITDA excluding special items	346,477	315,506	379,845
EBITDA	339,223	172,783	379,845
Capital expenditures, net	201,453	263,011	184,041
Total sector assets	2,434,183	2,379,936	2,206,092
CLEC:			
Revenues	$ 100,880	$ 61,084	$ 35,417
Inter-sector revenues	(3,061)	(3,341)	(1,319)
Revenues as reported	97,819	57,743	34,098
Operating loss excluding special items	(75,647)	(37,436)	(25,286)
Operating loss as reported	(75,923)	(48,201)	(25,286)
Depreciation	17,002	11,167	5,549
EBITDA excluding special items	(58,645)	(26,269)	(19,737)
EBITDA	(58,921)	(37,034)	(19,737)
Capital expenditures, net	200,000	124,549	41,607
Total sector assets	532,309	359,962	206,290
Public Services:			
Gas:			
Revenues	$ 325,423	$ 252,098	$ 239,619
Operating income excluding special items	43,757	41,907	33,756
Operating income as reported.,	42,225	29,200	33,756
Depreciation	24,084	15,587	10,953
EBITDA excluding special items	67,841	57,494	44,709
EBITDA	66,309	44,787	44,709
Capital expenditures, net	45,768	47,880	27,691
Total sector assets	554,028	530,696	381,740

Notes to Consolidated Financial Statements—(Continued)

	Year Ended December 31,		
	1998	1997	1996
	($ in thousands)		
Electric:			
Revenues excluding special items	$190,307	$198,070	$192,297
Revenues as reported	190,307	191,470	192,297
Operating income excluding special items	27,746	35,777	24,805
Operating income as reported.,	27,093	13,723	24,805
Depreciation	22,733	22,195	18,718
EBITDA excluding special items	50,479	57,972	43,523
EBITDA	49,826	35,918	43,523
Capital expenditures, net	18,895	23,544	24,591
Total sector assets	479,210	492,926	482,194
Water and Wastewater.			
Revenues	$ 93,784	$ 89,719	$ 88,294
Operating income excluding special items	28,140	26,541	30,588
Operating income as reported	27,207	23,700	30,588
Depreciation	12,369	11,500	10,491
EBITDA excluding special items	40,509	38,041	41,079
EBITDA	39,576	35,200	41,079
Capital expenditures, net	30,793	32,171	21,048
Total sector assets	598,397	556,559	511,628

The following table is a reconciliation of certain sector items to the total consolidated amount.

	Year Ended December 3 l,		
	1998	1997	1996
	($ in thousands)		
Revenues			
Total sector revenues excluding special items	$1,577,840	$1,441,300	$1,319,086
Inter-sector revenues	(35,468)	(26,914)	(12,569)
Charges to earnings	—	(20,767)	—
Consolidated reported revenues	$1,542,372	$1,393,619	$1,306,517
Operating income			
Total sector operating income excluding special items	$ 188,817	$ 206,932	$ 295,686
Y2K costs and separation costs	(10,648)		—
Charges to earnings	—	(191,030)	—
Consolidated reported operating income	$ 178,169	$ 15,842	$ 295,686
EBITDA			
Total sector EBITDA excluding special items	$ 446,661	$ 442,744	$ 489,419
Investment and other *income*	39,884	42,287	66,455
Minority interest	14,032	645	—
HTCC investment write off	(31,905)		
Y2K costs and separation costs	(10,648)	—	—
Charges to earnings	—	(195,576)	
Non operating gain on sale of subsidiary stock	—	78,734	—
Consolidated EBITDA	$ 458,024	$ 368,834	$ 555,874

	Year Ended December 3 I,		
	1998	1997	1996
	($ in thousands)		
Capital expenditures			
Total sector capital expenditures	$ 496,909	$ 491,155	$ 298,978
General capital expenditures	25,123	33,334	18,785
Consolidated repotted capital expenditures	$ 522,032	$ 524,489	$ 317,763
Assets			
Total sector assets	$4,598,127	$4,320,079	$3,787,944
General assets	694,805	552,773	735,204
Consolidated reported assets	$5,292,932	$4,872,852	$4,523,148

(15) Quarterly Financial Data (unaudited):

	Revenues	Net Income	Net Income Per Common Share	
			Basic	Dilutive
	($ in thousands)			
1998				
First quarter	$403,863	$26,779	$.10	$.10
Second quarter	366,347	14,462	.06	.06
Third quarter	378,279	14,461	.06	.06
Fourth quarter	393,883	1,358	.01	.01

	Revenues	Net Income (Loss)	Net Income (Loss) Per Common Share	
			Basic	Dilutive
	($ in thousands)			
1997				
First quartet	$375,091	$ 30,584	$ .12	$ .12
Second quarter	308,857	(123,175)	(.47)	(.47)
Third quarter	338,803	23,507	.09	.09
Fourth quarter	370,868	79,184	.31	.31

First quarter 1998 results include approximately $2,334,000 after tax cumulative effect of change in accounting principle, net of related minority interest (see Note l(n)). Fourth quarter 1998 results include an approximate $19,700,000 after tax write-off of the HTCC investment (see Note 4).

Second quarter 1997 results include approximately $135,164,000 after tax charges to earnings (see Note 10). Fourth quarter 1997 results include a non-operating $51,197,000 after tax gain on the sale of subsidiary stock (see Note 11).

The quarterly net income (loss) per common share amounts are rounded to the nearest cent and are adjusted for subsequent stock dividends. Annual earnings pet share may vary depending on the effect of such rounding.

Notes to Consolidated Financial Statements-(Continued)

(16) Supplemental Cash Flow Information:

The following is a schedule of net cash provided by operating activities for the years ended December 31, 1998, 1997 and 1996.

	1998	1997	1996
	($ in thousands)		
Net income	$ 57,060	$ 10,100	$178,660
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	257,844	235,812	193,733
Non cash charges to earnings	—	153,348	
Non cash HTCC investment write off	31,905	—	—
Cumulative effect of change in accounting principle	3,394		—
Gain on sale of subsidiary stock		(78,734)	—
Centennial non cash investment income			(9,043)
Allowance for equity funds used during construction	(5,311)	(6,881)	(8,704)
Deferred income tax and investment tax credit	23,687	(6,373)	68,418
Change in operating accounts receivable	(30,449)	(35,560)	(46,342)
Change in accounts payable and other	(102,386)	(36,881)	35,806
Change in accrued taxes and interest	18,022	(3,498)	(4,997)
Change in other assets	8,602	(901)	(32,350)
Net cash provided by operating activities	$ 262,368	$230,432	$375,181

In conjunction with the acquisitions described in Note 3 the Company assumed debt of $13,800,000, $8,400,000 and $13,000,000 in 1998, 1997 and 1996, respectively, at weighted average interest rates of 5.6%, 6.2% and 8.05%, respectively.

(17) Retirement Plans:

Pension Plan

The Company and its subsidiaries have a noncontributory pension plan covering all employees who have met certain service and age requirements. The benefits are based on years of service and final average pay or career average pay. Contributions are made in amounts sufficient to fund the plan's net periodic pension cost while considering tax deductibility. Plan assets are invested in a diversified portfolio of equity and fixed-income securities.

The following tables set forth the plan's benefit obligations and fair values of plan assets as of December 31, 1998 and 1997.

	1998	1997
	($ in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$208,520	$156,442
Service cost	10,747	8,815
Interest cost	15,703	12,978
Amendments	(1,487)	55
Actuarial loss	27,941.	22,194
Acquisitions	8,344	15,095
Benefits paid	(16,854)	(7,059)
Benefit obligation at end of year	$252,914	$208,520
Change in plan assets		
Fair value of plan assets at beginning of year	$201,834	$154,151
Actual return on plan assets	24,749	25,402
Acquisitions	10,875	21,298
Employer contribution	11,932	8,042
Benefits paid	(16,854)	(7,059)
Fair value of plan assets at end of year	$232,536	$201,834
Prepaid benefit cost		
Funded status	$ (20,378)	$ (6,686)
Unrecognized net liability	189	233
Unrecognized prior service cost	3,682	5,511
Unrecognized net actuarial loss	21,807	1,389
Prepaid benefit cost	$ 5,300	$ 447
Components of net periodic benefit cost		
Service cost	$ 10,747	$ 8,815
Interest cost on projected benefit obligation	15,703	12,978
Return on plan assets	(17,241)	(13,764)
Net amortization and deferral	400	865
Net periodic benefit cost	$ 9,609	$ 8,894

Assumptions used in the computation of pension costs/ year end benefit obligations were as follows:

	1998	1997
Discount rate	7.5%/7.0%	8.0%/7.5%
Expected long-term rate of return on plan assets	8.25%/N/A	8.5%/N/A
Rate of increase in compensation levels	4.0%/4.0%	4.0%/4.0%

In November 1998, the Company acquired Rhinelander Telecommunications, Inc., including its pension benefit plans. The acquisition increased the pension benefit obligation by $3,974,000 and the fair value of plan assets by $4,884,000 as of December 31, 1998.

In June 1998, the Company acquired TGC, including its non-collectively bargained pension benefit plan. The acquisition increased the pension benefit obligation by $4,370,000 and the fair value of plan assets by $5,991,000 as of December 31, 1998.

In October 1997, the Company acquired TGC, including its collectively bargained pension benefit plan. The acquisition increased the pension benefit obligation by $15,095,000 and the fair value of plan assets by $21,298,000 as of December 31, 1997.

Postretirement Benefits Other Than Pensions

The Company provides certain medical, dental and life insurance benefits for retired employees and their beneficiaries and covered dependents. During 1997, in conjunction with the Company's elimination of its retiree medical and dental plans for all non-union employees who were not eligible to retire, the Company accounted for a negative plan amendment and a curtailment in accordance with SFAS 106, "Employee's Accounting for Postretirement Benefits Other than Pensions."

The following table sets forth the plan's benefit obligations and the postretirement benefit liability recognized on the Company's balance sheets at December 31, 1998 and 1997.

	1998	1997
	($ in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$49,110	$ 49,915
Service cost	980	1,513
Interest cost	3,523	3,878
Plan participants' contributions	596	335
Amendments	(4,734)	(8,024)
Actuarial loss	4,503	2,645
Acquisitions	651	259
Benefits paid	(2,646)	(1,411)
Benefit obligation at end of year	$ 51,983	$49,110
Change in plan assets		
Fair value of plan assets at beginning of year	$ 6,661	$ 3,156
Actual return on plan assets	677	155
Acquisition	—	—
Employer contribution	11,372	3,350
Fair value of plan assets at end of year	$ 18,710	$ 6,661
Accrued benefit cost		
Funded status	$(33,273)	$(42,449)
Unrecognized transition obligation	386	2,494
Unrecognized prior service cost		
Accrued benefit cost	(7,562)	(12,913)
Net periodic benefit cost	$(40,449)	$(52,868)
Components of net periodic postretirement benefit costs		
service cost	$ 980	$ 1,513
Interest cost on the projected benefit obligation	3,523	3,878
Return on plan assets	(549)	(268)
Ner amortization and deferral	(947)	243
Curtailment (gain) charge	(2,003)	8,814
Net periodic postretirement benefit cost	$ 1,004	$ 14,180

For purposes of measuring year end benefit obligations, the Company used the same discount rates as were used for the pension plan and a 7% annual rate of increase in the per-capita cost of covered medical benefits, gradually decreasing to 5% in the year 2040 and remaining at that level thereafter. The effect of a 1% increase in the assumed medical cost trend rates for each future year on the aggregate of rhe service and interest cost components of the total postretirement benefit cost would be $417,000 and the effect on the accumulated postretirement benefit obligation For health benefits would be $4,854,000. The effect of a 1% decrease in the assumed medical cost trend rates for each future year on the aggregate of the service and interest cost components of the total postretirement benefit cost would be $(376,000) and the effect on the accumulated postretirement benefit obligation for health benefits would be $(4,336,000).

401(k) Savings Plans

The Company sponsors employee savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Under the plans, the Company provides matching contributions in Company stock based on qualified employee contributions. Matching contributions were $5,795,000, $4,883,000 and $4,248,000 for 1998, 1997 and 1996, respectively.

(18) Commitments and Contingencies:

The Company has budgeted capital expenditures in 1999 of approximately $640,000,000 (includes $45,000,000 of non-cash capital lease additions) and certain commitments have been entered into in connection therewith.

The Company conducts certain of its operations in leased premises and also leases certain equipment and other assets pursuant to operating leases. Future minimum rental commitments for all long-term noncancelable operating leases are as follows:

Year	Amount
	($ in thousands)
1999	$ 29,393
2000	28,434
2001	26,620
2002	20,137
2003	18,077
thereafter	38,003
Total	$160,664

Total rental expense included in the Company's results of operations for the years ended December 3 1, 1998, 1997 and 1996 was $31,645,000, $24,207,000 and $13,146,000, respectively.

In 1995, ELI entered into a $110 million construction agency agreement and an operating lease agreement in connection with the construction of certain communications networks and fiber cable links. ELI served as agent for the construction of these projects and, upon completion of each project, leased the facilities for a three year term, with one year renewals available through April 30, 2002. At December 31, 1998 and 1997, ELI was leasing assets with an original cost of approximately $108,541,000 and $87,426,000, respectively, under this agreement. ELI has the option to purchase the facilities at the end of the lease terms for the amount of the lessor's average investment in the facilities. Payments under the lease depend on current interest rates, and assuming continuation of current interest rates, payments would approximate $6.1 million annually through April 30, 2002 and, assuming exercise of the purchase option, approximately $110 million in 2002. In the event ELI chooses not to exercise this option, ELI is obligated to arrange for the sale of the facilities to an unrelated party and is required to pay the lessor any difference between the net sales proceeds and the lessor's investment in the facilities. However, any amount required to be paid to the lessor is subject generally to a maximum of 80% (approximately $88 million) of the lessor's investment. The Company has guaranteed all obligations of ELI under this operating lease. ELI has agreed to pay the Company a guarantee fee at the rate of 3.25% per annum based on the amount of the lessor's investment in the leased assets.

In June 1998, ELI entered into a private line services agreement with a third party, which allows ELI to utilize the third party's national fiber optic network for a period of nine years. ELI has a total minimum commitment of $122 million over the term of the agreement, including $11.6 million in 1999. A portion of the network was operational as of December 3 1, 1 998, with construction on the remainder of the network scheduled for completion in 1999.

The Company is also a party to contracts with several unrelated long distance carriers. The contracts provide fees based on leased traffic subject to minimum monthly fees aggregating $55,300,000, $31,200,000 and $21,200,000 for 1999, 2000, and 2001, respectively.

Under various contracts the Company purchases capacity and associated energy and water from various electric energy, natural gas and water suppliers. Some of these contracts obligate the Company to pay certain capacity costs whether or not energy or water purchases are made. These contracts are intended to complement the other components in the Company's power and water supply to achieve the most economic supply mix reasonably available. The capacity costs for which the Company is obligated are associated with energy and water purchases that approximate 40% of the Company's total annual energy and water costs for 1998. The Company expects this percentage to be no less in future years. At December 31, 1998, the estimated future payments for capacity, energy and water that the Company is obligated to buy under these contracts are as follows:

Year	Amount ($ in thousands)
1999	$107,095
2000	95,744
2001	93,372
2002	82,218
2003	63,175
thereafter	539,349
Total	$980,953

The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including the Company, have entered into a purchase power agreement with Hydro-Quebec. The agreement contains "'step-up" provisions that state that if any VJO member defaults on its obligation under the contract to purchase power from Hydro-Quebec the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. As of December 31, 1998, the Company's obligation under the agreement is approximately 10% of the total contract. The two largest participants in the VJO represent approximately 46% and 37% of the total contract, respectively During 1998, these two major participants have each experienced regulatory disallowances that have resulted in credit rating downgrades and stock price declines. Both of these participants are in the process of appealing the regulatory disallowances; however, both companies have stated that an unfavorable ruling could jeopardize their ability to continue as going concerns. If either or both of these companies default on their obligations under the Hyrdo-Quebec agreement, the remaining members of the VJO, including the Company, may be required to pay for a substantially larger share of the VJO's total power purchase obligation for the remainder of the agreement. Such a result could have a materially adverse effect on the financial results of the Company's Vermont Electric Division and on the Company as a whole.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after considering insurance coverages, will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Statement of Responsibility

The management of Citizens Utilities Company is responsible for the preparation of the consolidated financial statements included in this report. The financial statements have been prepared in a manner consistent with generally accepted accounting principles and the accounting policies and procedures prescribed by the appropriate regulatory agencies. Transactions in process at year-end that are required to be included in these financial statements are reflected based on management's informed judgments.

The company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed as authorized and are properly recorded, and that the accounting records may be relied upon for rhe preparation of consolidated financial statements and other financial information. There are inherent limitations that should be recognized in considering the assurances provided by any internal control system. Management strives to maintain a balance between the cost of the internal control system and the benefits to be derived.

The company also maintains an internal auditing function which evaluates and formally reports on the adequacy and effectiveness of internal controls, policies and procedures. KPMG LLP, independent certified public accountants, has audited these consolidated financial statements and has expressed irs opinion as to their fairness.

The Board of Directors pursues its review and oversight role for these financial statements through an Audit Committee composed of Directors who are not employees of this company. The Audit Committee meets periodically with management and WMG LLP to review the activities of each in discharging their responsibilities.

Robert J. DeSantis
Chief Financial Officer,
Vice President and Treasurer

March 5, 1999

Shareholder Information

Common Stock

Effective August 25, 1997, Citizens Common Stock Series A and Common Stock Series B were combined into a single series common stock trading on rhe New York Stock Exchange under the symbol CZN.

Citizens has historically declared and issued quarterly stock dividends on its common stock based on the number of whole shares owned on rhe record date for that dividend. Dividends distributed were paid on both whole and fractional shares to holders of at least one whole share. Under current statutes and regulations, stock dividends are not taxable when received and are treated as capital transactions for federal income tax purposes, when and if sold. Gain or loss is based on the difference between sales price and adjusted basis per share.

Effective with the first quarter of 1999, Citizens Utilities discontinued paying dividends in common stock.

Citizens EPPICS

Citizens declares and issues quarterly distributions on its Equity Providing Preferred Income Convertible Securities (EPPICS). At the option of either Citizens or the holder, distributions are payable in cash or in shares of Citizens common stock. Citizens EPPICS must be purchased through and held by a broker or custodial institution. Please contact your broker, custodial institution or Citizens' Investor Relations department for additional information about this security.

Book Entry

Book entry provides registered shareholders with statements reflecting the number of shares credited to their accounts as a result of direct purchases, stock dividends and stock splits. A shareholder may receive certificates representing his or her direct purchases, stock dividends and stock splits by completing the reverse side of the quarterly statement and mailing it, or a written request, to the company's transfer agent, Illinois Stock Transfer Company (see "Stock Transfer Agent" on the following page).

Stock Dividend Sale Plan

As a result of the discontinuance of common stock dividends, the Stock Dividend Sale Plan is inactive.

Direct Stock Purchase and Sale Plan

Registered shareholders may enroll in Citizens' Direct Stock Purchase and Sale Plan. Street name shareholders may participate in the Plan if their brokers or custodial institutions establish procedures permitting them to do so. The Plan provides shareholders with a convenient method for purchasing additional shares of Citizens common stock by making optional cash payments or by automatic debits from their bank accounts. Under the Plan, the price shareholders pay for Citizens common stock is based on an average market price during the purchase period and includes a commission of two cents per share if the shares are purchased in the open market. There is currently a $6 transaction fee to purchase stock through the Plan. The Plan also provides shareholders with a way to sell shares of Citizens stock. There is a fee of $15 and a two cents per share commission for each sales transaction. For information and/or an enrollment form for this Plan, please contact Illinois Stock Transfer Company.

Stock Safekeeping Program

The Safekeeping Program, which is voluntary, allows shareholders to mail their accumulated stock certificates to Citizens' transfer agent, Illinois Stock Transfer Company. Upon receipt, Illinois Stock Transfer credits the shareholder's account with the appropriate number of book entry shares, cancels the actual certificates, and issues a statement reflecting the total number of shares held. Shareholders requiring certificates for sale or pledge may request them in writing (by mail or fax) at any time from the transfer agent. For information about this Program, please contact Illinois Stock Transfer Company.

Stock Market Information

On February 24, 1992, Citizens commenced trading on the New York Stock Exchange under the symbols CZNA and CZNB for Series A and Series B, respectively. Effective August 25, 1997, Citizens Common Stock Series A and Citizens Common Stock Series B were combined into a single series common stock trading on the New York Stock Exchange under the symbol CZN. Citizens Equity Providing Preferred Income Convertible Securities (EPPICS) is listed on the New York Stock Exchange under the symbol CZNPr.

As of February 26, 1999, the approximate number of registered holders of the company's common stock was 46,592, according to Citizens' transfer agent.

The table below shows the high and low prices per share for the periods shown. These prices were taken from the daily quotations published in The *Wall Street Journal* during the periods indicated. Prices have been adjusted to the nearest 1/16th for subsequent stock dividends.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	Hi&	Low	High	Low
1998								
CZN	$10 7/8	$8 7/8	$11 3/16	$9 1/2	$10	$6 7/8	$9 1/16	$7 1/4
EPPICS	$49 13/16	$47	$50 1/4	$47 3/16	$47 1/8	$40 1/2	$44 1/4	$39 1/8
1997								
CZNA	$11 11/16	$9 13/16	$11 1/2	$8 5/16	—	—		
CZNB	$11 11/16	$9 15/16	$11 1/2	$7 5/8	$9	$7 9/16	$10 1/16	$8 13/16
EPPICS	$52	$47 1/2	$51 3/4	$43 1/2	$45 3/4	$42 1/16	$48 11/16	$45 15/16

The December 31, 1998 prices for Citizens common stock were: $8 1/8 high, $7 15/16 low, and for EPPICS: $42 5/8 high, $42 3/8 low.

Stock Transfer Agent

Questions from registered shareholders concerning stock transfers, the Direct Stock Purchase and Sale Plan, the Stock Safekeeping Program, account consolidations, dividend payments, lost certificates, changes of address, receipt of duplicate material, and any other account-related matters should be directed to Illinois Stock Transfer Company (IST) by telephoning 800.757.5755 or 312.427.2953, or by faxing to 312.427.2879, or by writing to Citizens Utilities, c/o Illinois Stock Transfer Company, 209 West Jackson Boulevard, Suite 903, Chicago, IL 60606-6905.

Citizens' World Wide Web Site

Anyone with an Internet connection can have online access to company information, including quarterly and annual financial publications, press releases, remarks by Citizens' senior management, historical common stock prices and other information. Citizens' Internet address is: http://www.czn.net.

Shareholder Inquiries

Quarterly financial information is mailed to all shareholders. Questions concerning these materials may be directed to Shareholder Services or Investor Relations at Citizens' Corporate Headquarters by telephoning 800.248.8845. Additional copies of this report, the company's 1998 Form 10-K report filed with the Securities and Exchange Commission, and other written information about the company may be requested by telephoning 800.877.4389, extension 4600, faxing to 203.614.4602; or emailing Citizens@czn.com.

Corporate Headquarters
Citizens Utilities
3 High Ridge Park
Stamford, CT 06905-1390
Tel. 203.614.5600
Fax 203.614.4602
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Leadership

Board of Directors

Norman I. Botwinik[3,4,5]
Director Emeritus of the Board of Governors
University ***of New Haven***
New Haven, CT
Director ***since 1968***

Aaron I. Fleischman[1,4]
Senior Partner, Fleischman and Walsh
Washington, D C
Director since 1989

James C. Goodale[2]
Of Counsel, Debevoise & Plimpton
New York, NY
Director since 1996

Stanley Harfenist[1,3,4]
President and Chief Executive Officer
Adesso, Inc.
Director, Electric Lightwave, Inc.
Los Angeles, CA
Director since 1932

Andrew N. Heine[2]
Of Counsel, Gordon Altman Butowsky Weitzen Shalov & Wein
New York, NY
Director since 1975

John L. Schroeder[2,5]
Director, Morgan Stanley Dean Witter Funds
New York, NY
Director since 1980

Robert D. Siff[2]
Consultant and former Executive Vice President
Chittenden Bank
Concord>NH
Director since 1989

Robert A. Stanger[1,2,3]
Chairman, Robert A. Stanger & co., Inc.
Director, Electric Lightwave, Inc.
Shrewsbury, N J
Director since 1992

Charles H. Symington, Jr.[2,3,5]
Director, 3i Corporation
Spring Island, SC
Director since 1995

Edwin Tornberg[3,5]
President, Edwin Tornberg & co., Inc.
Potomac, MD
Director since 1992

Claire Tow[5]
Senior Vice President and Director
Century Communications Corp.
New Canaan, CT
Director since 1993

Leonard Tow[1]
Chairman and Chief Executive Officer, Citizens Utilities
Chairman, Electric Lightwave, Inc.
Chairman, Century Communications Corp.
Director, Hungarian Telephone & Cable Corp.
Director, United States Telephone Association
Stamford, CT
Director since 1989

1 Executive Committee
7. Audit Committee
3 Compensation Committee
4 Nominating Committee
5 Retirement Committee

Officers

Leonard Tow
Chairman and Chief Executive Officer

Daryl A. Ferguson
President and Chief Operating Officer

0. Lee Jobe
Vice President, Citizens Utilities
President, Citizens Communications

J. Michael Love
Vice President Citizens Utilities
President, Citizens ***Public Servicer***

David B. Sharkey
President and Chief Operating Officer
Electric Lightwave, Inc.

Kenneth C. Dering
Assistant Vice President and Assistant Treasurer

Robert J. DeSantis
Chief Financial Officer, Vice President and Treasurer

Laura L. DiPreta
Assistant Vice President and Assistant Controller

Nicholas L. Ioli
Vice President and Chief Information Officer

Edward 0. Kipperman
Vice President, Tax

L. Russell Mitten, II
Vice President and General Counsel

Alan H. Oshiki
Assistant Vice President and Assistant Treasurer

Frank E. Plumley
Assistant Vice President and Assistant Treasurer

James D. Ranton
Vice President, Corporate Human Resources

Livingston E. Ross
Vice President and Controller

Brigid M. Smith
Assistant Vice President, Corporate Communications

Donald P. Weinstein
Vice President, Planning and Development

Charles J. Weiss
Secreta y and Assistant Vice President

Citizens Utilities Company and Subsidiaries

Consolidated Financial Data

($ in thousands, except per-share and other financial data)	Five-Year Compounded Annual Growth	1998	1997	1996	1995	1994
Select Income Statement Data						
Revenues .	20%	$1,542,372	$1,414,386	$1,306,517	$1,069,032	$906,150
Cost of services	13%	359,762	333,561	285,749	209,179	203,505
Depreciation.	36%	257,844	235,812	193,733	158,935	115,175
Other operating expenses	29%	735,949	638,081	531,349	446,745	359,346
Operating income	3%	188,817	206,932	295,686	254,173	228,124
Special items (1)	n/a	(10,648)	(191,090)		—	
Operating income including special items	2%	178,169	15,842	295,686	254,173	228,124
Investment and other income	—	53,916	42,931	66,455	59,955	52,940
Interest expense	25%	112,239	107,584	92,695	87,775	72,744
Special items (2)	n/a	(34,239)	72,504	—	—	—
Income taxes	-16%	22,337	7,383	84,937	66,817	64,323
Convertible preferred dividends.	n/a	6,210	6,210	5,849		
Net income.	-15%	57,060	10,100	178,660	159,536	143,997
Net income excluding special items	-7%	85,658	94,087	178,660	159,536	143,997
Net income excluding special items and ELI	-1%	120,376	117,912	194,267	170,099	146,054
Cash Plow and Capital Expenditure Data (excludes special items)						
EBITDA (3). . . .	13%	$ 500,577	$ 485,676	$ 555,874	$ 473,063	$396,239
EBITDA excluding ELI (3)	15%	545,190	511,945	575,611	483,787	397,766
Cash flaw from operations . .	7%	268,940	260,553	375,181	338,611	262,316
Cash Row from operations excluding ELI	9%	305,716	277,742	394,918	349,335	263,843
Capita expenditures	27%	522,032	524,489	317,763	240,733	276,876
Capital expenditures excluding ELI	16%	322,032	399,940	276,156	213,328	224,067
Free cash Row (4)	n/a	(253,092)	(263,936)	57,418	97,878	(14,560)
Free cash Row excluding ELI (4)	n/a	(16,316)	(122,198)	118,762	136,007	39,776

(1) For 1998, special items include Y2K and separation costs. For 1997, special items include charges to earnings.

(2) For 1998, special items include the write dawn of the Company's investment in HTCC and the cumulative effect of a change in accounting principle at ELI. For 1997, special items include the nonoperating gain on sale of subsidiary stock offset by charges to earnings.

(3) Earnings before interest expense, income taxes, depreciation and amortization.

(4) Cash flow from operations less capital expenditures.

Citizens Utilities Company and Subsidiaries

Consolidated Financial Data

($ in thousands, except per-share and other financial data)	Five-Year Compounded Annual Growth	1998	1997	1996	1995	1994
Select Balance Sheet Data						
Cash and investments..	-3%	$ 446,683	$ 433,662	$ 563,382	$ 347,012	$ 448,053
Total assets	15%	5,292,932	4872,852	4,523,148	3,918,187	39576,566
Net plant	19%	4,048,623	3,667,793	3,138,052	2,908,030	2,569,655
Long-term debt..	28%	1,900,246	1,706,532	1,509,697	1,187,000	994,189
Equity (5).	15%	1,994,021	1,880,461	19879,433	1,559,913	1,156,896
Shares of common stack outstanding	7%	259,149	250,994	239.148	227,587	173,472
Weighted average shares outstanding (6)	2%	258,879	260,226	261,286	250,484	236,619
Per-Share Data (6)						
Basic and diluted net income per share of common stock as reported	- 16%	$ .22	$ .04	$ .68	$ .64	$ .61
Basic net income per share of common stock excluding special items.	-9%	$ .33	$ .36	$ .68	$ .64	$ .61
Basic net income per share of common stack excluding special items and ELI..	-3%	$ .47	$ .45	$ .74	$ .68	$ .62
Operating cash Row per share	4%	$1.01	$ .89	$1.44	$1.35	$1.11
Operating cash Row per share excluding special items	5%	$1.04	$1.00	$1.44	$1.35	$1.11
Operating cash flow per share excluding special items and ELI	7%	$1.18	$1.07	$1.51	$1.39	$1.12
Book value per share	11%	$6.93	$6.45	$6.42	$6.23	$4.89
Other Financial Data						
Lang-term debt to long-term debt and equity..................	n/a	49%	48%	45%	43%	46%
Long-term debt to long-term debt and equity excluding ELI	n/a	44%	47%	45%	43%	46%
Interest coverage (7).	n/a	4.1x	3.4x	6.0x	5.4x	5.4x
Interest coverage exlcuding special items (7)	n/a	4.5x	4.5x	6.0x	5.4x	5.4x
Interest coverage excluding special items and ELI (7)	n/a	4.9x	4.8x	6.2x	5.5x	5.5x
Common equity market capitalization (in billions),	n/a	$ 2.1	$ 2.4	$ 2.6	$ 2.9	$ 2.5
Equity market capitalization (in billions) (8).	n/a	$ 2.2	$ 2.6	$ 2.8	$ 2.9	$ 2.5
Market capitalization (in billions) (9).	n/a	$ 4.1	$ 4.4	$ 4.4	$ 4.2	$ 3.5
ELI public enterprise value (in billions) (IO).	n/a	$ .7	$ .8	n/a	n/a	n/a

(5) Includes convertible preferred securities.
(6) Adjusted for subsequent stock dividends and stock splits and used in the calculation of all per share data.
(7) EBITDA divided by interest expense.
(8) Includes market value of convertible preferred securities.
(9) Equity marker capitalization plus marker value of long-term debt.
(10) Includes common equity market capitalization plus net debt.

Citizens Utilities Company and Subsidiaries

Sector Financial and Operating Data

($ in thousands, except operating data)	Five-Year Compounded Annual Growth	1998	1997	1996	1995	1994
Citizens Communications						
Select Income Statement Data						
Revenues						
Network access services	30%	$ 432,018	$ 403,990	$ 391,151	$ 334,952	$ 265,532
Local network services	45%	262,239	250,521	232,904,	197,092	139,896
Long distance services	n/a	96,584	104,914	59,072	14,217	
Directory services	35%	31,691	31,982	30,248	24,866	17,843
Other	27%	44,914	48,922	50,084	29,486	25,452
Eliminations (1)	n/a	(32,407)	(23,573)	(11,250)	(1,436)	—
Total *revenues*	36%	835,039	816,756	752,209	599,177	448,723
Cost of services (network expenses)	n/a	89,514	96,303	61,432	10,372	—
Depreciation	52%	181,656	175,363	148,022	114,218	79,853
Other operating expenses	45%	434,516	431,861	323,501	285,428	216,817
Eliminations (1)	n/a	(35,468)	(26,914)	(12,569)	(2,151)	
Operating income	14%	164,821	140,143	231,823	191,310	152,053
Special items (2)	n/a	(7,254)	(142,723)			
Operating income/(loss) including special items	13%	157,567	(2,580)	231,823	191,310	152,053
Operating margin	n/a	20%	17%	31%	32%	34%
Cash Flow and Capital Expenditure Data						
Operating cash Row (3)	26%	$ 346,477	$ 315,506	$ 379,845	$ 305,528	$ 231,906
Capital expenditures	37%	201,453	263,011	184,041	113,657	120,416
Free cash flow (4)	17%	145,024	52,495	195,804	191,871	111,490
EBITDA margin (5)	n/a	41%	39%	50%	51%	52%
Select Balance Sheet Data						
Total assets	23%	$2,434,183	$2,379,936	$2,206,092	$1,973,198	$1,691,647
Net plant	22%	2,122,794	2,024,220	1,843,298	1,702,989	1,456,439
Operating Data						
Accesslines	23%	951,513	895,880	834,180	776,764	705,517
Long distance customers - in territory	n/a	230,871	236,000	179,133	47,049	
- out of territory	n/a	8,101	22,000	40,003	6,785	
- total	n/a	238,972	258,000	219,136	53,834	
Revenue per access line	11%	$ 878	$ 912	$ 902	$ 771	$ 636
In-territory billed access minutes of use (in millions)	n/a	4,521	4,496	4,251	3,168	
Citizens' long distance minutes of use (in millions) - in territory	n/a	483	435	212	74	
- out of territory	n/a	221	414	174	II	
-total	n/a	704	849	386	85	
Citizens' long distance in territory minutes of use market share	n/a	19%	20%	16%	2%	
Citizens' long distance in territory customer market share	n/a	24%	27%	21%	6%	—

(1) The Company began providing long distance services in 1795. Eliminations represent network access revenues received by the Company's local exchange operations from its long-distance and competitive local exchange operations.
(2) For 1998, special items include Y2K and separation costs. For 1997, special items include the charge to earnings.
(3) Operating income excluding special items plus depreciation. This is the equivalent of sector EBITDA.
(4) Operating cash flow less capital expenditures.
(5) Operating cash flow divided by total revenues.

Citizens Utilities Company and Subsidiaries

Sector Financial and Operating Data

($ in thousands, except operating data)	Five-Year Compounded Annual Growth	1998	1997	1996	1995	1994
Electric Lightwave, Inc.(1)						
Select Income Statement Data						
Revenues						
Network services	n/a	$ 36,589	$ 33,522	$ 19,947	$ 14,357	$ 7,041
Local telephone services	n/a	38,169	10,565	2,533	676	
Lang distance services	n/a	12,309	8,140	7,232	1,586	
Data services	n/a	13,813	8,857	5,705	1,666	1,111
Eliminations (1)	n/a	(3,061)	(3,341)	(1,319)	(715)	—
Total *revenues*	n/a	97,819	57,743	34,098	17,570	8,152
Cost of services (network expenses)	n/a	50,957	29,546	15,782	7,405	6,155
Gross margin	n/a	46,862	28,197	18,316	10,165	1,997
Depreciation	n/a	17,002	11,167	5,549	6,390	1,806
Other operating expenses	n/a	105,507	54,466	38,053	20,889	3,524
Operating loss	n/a	(75.647)	(37,436)	(25,286)	(17,114)	(3,333)
Special items (2)	n/a	(276)	(10,765)	—	—	—
Operating loss including special items	n/a	(75,923)	(48,201)	(25,286)	(17,114)	(3,333)
Cash Flow and Capital Expenditure Data						
Operating cash flow (3)	n/a	5 (58,645)	5 (26,269)	$ (19,737)	$ (10,724)	$ (1,527)
Capita expenditures	n/a	200,000	124,549	41,107	27,405	52,809
Free cash flow (4)	n/a	(258,645)	(150,818)	(61,344)	(38,129)	(54,336)
Select Balance Sheet Data						
Total assets	n/a.	5 532,309	5 359,962	$206,290	$124,079	5114,246
Gross plant - owned	n/a	528,582	328,664	156,738	119,975	106,174
-leased	n/a	108,541	87,426	62,485	43,446	11,334
- total	n/a	637,123	416,090	219,223	163,421	117,508
Operating Data						
Route miles	n/a	3,091	2,494	1,428	780	601
Fiber miles	n/a	181,368	140,812	97,665	52,013	37,504
Customers	n/a	1,644	1,165	763	402	221
Buildings connected	n/a	766	610	438	282	191
Employees	n/a	1,090	573	402	225	127
Revenue per employee	n/a	$ 89,742	5 100,773	$ 84,821	$ 78,089	$ 64,189

(1) The Company's Competitive Local Exchange Carrier (CLEC) subsidiary, Electric Lightwave, Inc. (ELI). Eliminations reflect intercompany activity between the Company's CLEC and communications operations.
(2) For 1998, special items include Y2K and separation costs. For 1997, special items include the charge to earnings.
(3) Operating loss excluding special items plus depreciation. This is the equivalent of sector EBITDA.
(4) Operating cash flow less capital expenditures.

Citizens Utilities Company and Subsidiaries

Sector Financial and Operating Data

($ in thousands, except operating data)	Five-Year Compounded Annual Growth	1998	1997	1996	1995	1994
Citizens Public Services						
Select Income Statement Data						
Revenues						
Residential distribution	6%	$ 307,440	5 298,866	$ 285,626	5 245,983	$ 247,002
Commercial distribution	13%	181,669	135,671	119,260	105,045	104,047
Industrial distribution	4%	87,924	74,856	85,238	75,182	71,333
Total distribution	7%	577,033	509,393	490,124	426,210	422,382
Transportation/transmission	-13%	2,435	2,622	5,519	4,255	3,846
Other	2%	30,046	27,872	24,567	21,820	23,047
Total revenues	7%	609,514	539,887	520,210	452,285	449,275
Cost of services (1)	G%	254,759	234,626	221,104	193,553	197,350
Gross margin	8%	354,755	305,261	299,106	258,732	251,925
Depreciation	13%	59,186	49,282	40,162	38,327	33,516
Other operating expenses	8%	195,926	151,754	169,795	140,428	139,005
Operating income	6%	99,643	104,225	89,149	79,977	79,404
Special items (2)	n/a	(3,118)	(37,602)	—	—	—
Operating income including special items	5%	96,525	66,623	89,149	79,977	79,404
Cash Plow and Capital Expenditure Data						
Operating cash Row (3)	8%	$ 158,829	$ 153,507	$ 129,311	$ 118,304	$ 112,920
Capita expenditures	3%	95,456	103,595	73,330	89,466	82,902
Free cash flow (4)	20%	63,373	49,912	55,981	28,838	30,018
Select Balance Sheet Data						
Total assets	8%	$1,631,635	$1,580,181	$1,375,562	$1,337,780	$1,220,749
Net plant	9%	1,344,643	1,269,271	1,096,928	1,052;841	971,006
Operating Data						
Customers	4%	867,300	845,600	765,452	749,633	730,653
Employees	5%	1,787	1,719	1,519	1,489	1,531
Customers per employee	-1%	485	492	504	503	477
Gross margin (net revenue) per employee	3%	$ 198,520	5 177,581	5 196,910	$ 173,762	$ 164,549

(1) Natural gas, electric energy and fuel oil purchased.
(2) For 1998, special items include Y2K and separation costs. For 1997, special items include the charge to earnings.
(3) Operating income excluding special items plus depreciation. This is the equivalent of sector EBITDA.
(4) Operating cash flow less capital expenditures.

Citizens Utilities Company and Subsidiaries

Financial and Operating Data by Service

($ in thousands, except operating data)	Five-Year Compounded Annual Growth	1998	1997	1996	1995	1994
Citizens Public Services Gas						
Select Income Statement Data						
Revenues						
Residential distribution	5%	$150,386	$145,016	$134,888	$110,146	$117,266
Commercial distribution	21%	109,259	64,004	49,633	40,614	43,497
Industrial distribution	6%	47,497	30,366	40,230	35,244	35,342
Total distribution	9%	307,142	239,386	224,751	186,004	196,105
Transportation	-13%	2,435	2,622	5,519	4,255	3,846
Other	8%	15,846	10,090	9,349	7,643	8,989
Total revenues	9%	325,423	252,098	239,619	197,902	208,940
Cast of services (natural gas purchased)	7%	166,829	139,900	127,913	108,385	116,419
Gross margin	11%	158,594	112,198	111,706	89,517	92,521
Depreciation	18%	24,084	15,587	10,953	12,155	10,827
Other operating expenses	11%	90,753	54,704	66,997	51,488	51,489
Operating income	9%	43,757	41,907	33.756	25,874	30,205
Special items (1)	n/a	(1,532)	(12,707)	—	—	—
Operating income including special items	8%	42,225	29,200	33,756	25,874	30,205
Cash Plow and Capital Expenditure Data						
Operating cash flow (2)	11%	$ 67,841	$ 57,494	$ 44,709	$ 38,029	$ 41,032
Capital expenditures	14%	45,768	47,880	27,691	28,659	26,247
Free cash flow (3)	7%	22,073	9,614	17,018	9,370	14,785
Select **Balance Sheet Data**						
Total assets	14%	$554,028	$530,696	$381,740	$344,036	$306,979
Net plant	15%	444,126	423,533	281,220	261,326	240,667
Operating Data						
Customers	6%	457,200	446,100	371,244	363,293	356,343
Employees	5%	958	923	799	776	795
Customers per employee	—	477	483	465	468	448
Gross margin (net revenue) per employee	5%	$165,547	$121,558	$139,807	$115,357	$116,379
Billion Cubic Feet of gas throughput (BCF)	8%	108.8	80.3	73.9	83.0	71.3

(1) For 1998, special items include Y2K and separation costs. For 1997, special items include the charge to earnings.
(2) Operating income excluding special items plus depreciation. This is the equivalent of sector EBITDA.
(3) Operating cash flow less capital expenditures.

Financial and Operating Data by Service

($ in thousands, except operating data)	Five-Year Compounded Annual Growth	1998	1997	1996	1995	1994
Citizens Public Services						
Electric						
Select Income Statement Data						
Revenues						
Residential distribution	5%	$ 80,887	$ 83,108	$ 79,893	$ 72,460	$ 71,322
Commercial distribution	5%	57,617	57,455	55,826	52,152	49,597
Industrial distribution	3%	39,393	43,529	44,165	39,362	35,376
Total distribution	4%	177,897	184,092	179,884	163,974	156,295
Other	-2%	12,410	13,978	12,413	11,377	11,645
Total revenues	4%	190,307	198,070	192,297	175,351	167,940
Cost of services (electric energy and fuel oil purchased)	3%	87,930	94,726	93,191	85,168	80,931
Gross ***margin***	5%	102,377	103,344	99,106	90,183	87,009
Depreciation	12%	22,733	22,195	18,718	17,035	15,251
Other operating expenses	7%	51,898	45,372	55,583	43,088	40,537
Operating income	-2%	27,746	35,777	24,805	30,060	31,221
Special items (1)	n/a	(653)	(22,054)	—		—
Operating income including special items	-2%	27,093	13,723	24,805	30,060	31,221
Cash Flow and Capital Expenditure Dam						
Operating cash Raw (2)	3%	$ 50,479	$ 57,972	$ 43,523	$ 47,095	$ 46,472
Capital expenditures	-12%	18,895	23,544	24,591	32,849	34,379
Free cash flow (3)	30%	31,584	34,428	18,932	14,246	12,093
Select Balance Sheet Data						
Totalassets	1%	$ 479,210	$ 492,926	$ 482,194	$ 487,893	$ 458,457
Net plant	3%	386,299	388,162	393,475	389,036	363,237
Operating Data						
Customers	3%	115,400	111,800	109,802	107,274	104,269
Employees	-3%	300	303	345	342	377
Customers per employee	6%	385	369	318	314	277
Gross margin (net revenue) per employee	8%	$ 341,257	$ 341,069	$ 287,264	$ 263,693	$ 230,793
Megawatt hours sold	4%	1,745,419	1,655,121	1,691,384	1,594,814	1,562,115
Megawatt hours generated	3%	367,285	353,390	352,261	360,276	327,036
Megawatt hours purchased	4%	1,533,163	1,533,584	1,395,073	1,331,495	1,333,092

(1) For 1998, special items include Y2K and separation costs. For 1997, special items include the charge to earnings.
(2) Operating income excluding special items plus depreciation. This is the equivalent of sector EBITD A.
(3) Operating cash flow less capital expenditures.

Citizens Utilities Company and Subsidiaries

Financial and Operating Data by Service

(5 in thousands, except operating data)	Five-Year Compounded Annual Growth	1998	1997	1996	1995	1994
Citizens Public Services						
Water/Wastewater						
Select Income Statement Data						
Revenues						
Residential distribution	8%	5 76,167	$ 70,742	5 70,845	5 63,377	5 58,414
Commercial distribution	9%	14,793	14,212	13,801	12,279	10,953
Industrial distribution	19%	1,034	961	843	576	615
Other	-5%	1,790	3,804	2,805	2,800	2,413
Total revenues	7%	93,784	89,719	88,294	79,032	72,395
Depredation	8%	12,369	11,500	10,491	9,137	7,438
Other operaring expenses	5%	53,275	51,678	47,215	45,852	46,979
Operating income	13%	28,140	26,541	30,588	24,043	17,978
Special items (1)	n/a	(933)	(2,841)	—	—	—
Operating income including special items	12%	27,207	23,700	30,588	24,043	17,978
Cash Plow and Capital Expenditure Data						
Operating cash flow (2)	11%	$ 40,509	$ 38,041	$ 41,079	$ 33,180	$ 25,416
Capital expenditures	6%	30,793	32,171	21,048	27,958	22,276
Free cash Row (3)	53%	9,716	5,870	20,031	5,222	3,140
Select Balance Sheet Data						
Total assets	8%	5598,397	$556,557	$511,628	$505,851	5455,312
Net plant	11%	514,218	457,576	422,233	402,477	367,102
Operating Data						
Customers	3%	294,700	287,700	284,406	279,066	270,041
Employees	2%	352	364	375	371	359
Customers per employee	1%	837	790	758	752	752
Revenue per employee	6%	$266,432	$246,481	$235,451	$213,024	$201,657
Billions of gallons of water delivered	—	29.6	31.4	32.5	31.2	27.9
Billions of gallons of wastewater treated	3%	5.1	5.0	5.6	5.6	4.7

(1) For 1998, special items include Y2K and separation costs. For 1997, special items include the charge to earnings.
(2) Operating income excluding special items plus depreciation. This is the equivalent of sector EBITDA.
(3) Operating cash Row less capital expenditures.